



Extract from the report to the  
Public Accounts Committee on  
government transfers to local  
and regional authorities

November  
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## I. Introduction and conclusion

1. In 2010, the government transferred DKK 334.5 billion, or just under half of the government's total net expenditure, to local and regional authorities. The transfers concerned reimbursements of various local authority expenditure concerning services directed towards the citizens, and the funds were administered by the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Refugee, Integration and Immigration Affairs (Ministry of Integration). The transfers also included grants to local and regional authorities that were administered by the Ministry of Interior and Health. The expenditure of the ministries appears from table 1.

**Table 1. Government transfers to local and regional authorities in 2010 broken down on ministries (DKK billion)**

	Local authorities	Regional authorities
<b>Government transfers:</b>		
Ministry of Employment	168.8	
Ministry of Social Affairs	3.9	
Ministry of Integration	1.4	
<b>Government grants:</b>		
Ministry of Interior and Health	80.9	79.5
<b>Total</b>	<b>255.0</b>	<b>79.5</b>

As indicated in table 1, government transfers to local authorities amounted to DKK 174.1 billion in 2010 and thus accounted for the largest part of the total transfers.

2. Rigsrevisionen issues its opinions on the ministerial areas on the basis of, for instance, the audit performed in areas receiving government transfers. The audit opinions are included in the report to the Public Accounts Committee on the audit of the state accounts for 2010, which was issued in November 2011. In its audit opinion, Rigsrevisionen declares whether the financial statement of the enterprise gives a true and fair view, i.e. is free from material misstatement and deficiencies. Rigsrevisionen also assesses whether appropriate business procedures and internal controls have been established to ensure that the transactions included in the financial statement are in compliance with appropriations, legislation and other provisions, agreements made and general practice.

The audit referred to in this report was planned and performed in compliance with generally accepted public auditing standards. The following questions are addressed in the report:

- Is the financial reporting of the Ministry of Social Affairs, the Ministry of Employment, the Ministry of Integration and the Ministry of Interior and Health concerning reimbursements and grants to local and regional authorities correct?
- Have the ministries established procedures and internal controls to ensure that transactions comply with appropriations, acts, other regulations, agreements concluded and usual practice?
- Are the local authority audit reports for the fiscal year 2009 adequately reviewed by the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration as part of their supervision of the reimbursement schemes?
- Are the local authorities managing the external actors involved in the employment effort in a satisfactory manner?
- Is the regional audit performed in a satisfactory manner and is the audit followed up in a satisfactory manner?

### **Audit scope**

3. Rigsrevisionen has examined the ministries' administration and financial reporting of reimbursements and grants to local and regional authorities.

Rigsrevisionen examined how six selected local authorities involved external actors in their employment efforts, i.e. Gentofte, Vordingborg, Hjørring, Viborg, Aabenraa, and Copenhagen.

Rigsrevisionen's audit included a review of the ministries' processing of 19 local authority audit reports for the fiscal year 2009. These audit reports include the local authority auditor's overall assessment of the administration of reimbursements received from the government. Rigsrevisionen has reviewed the ministries' letters of response to the local authorities concerning the fiscal year 2009.

Finally, Rigsrevisionen has reviewed audit reports on the financial statements of the regions for 2009, which, at the time of Rigsrevisionen's review, was the most recent audited financial statement available.

The results of the audit have already in some areas led to changed administrative routines; the National Labour Market Authority has adjusted the contract and guidance material used by the local authorities to manage external actors involved in the employment effort. Moreover, the audit has resulted in an improvement of the letters of response sent by the ministries to the local authorities as part of the ministries' supervision of the reimbursement schemes. These issues are also addressed in the report.

4. The report is divided into four sections:

- Chapter II deals with the financial reporting of the government reimbursements and grants to local authorities by the Ministry of Social Affairs, the Ministry of Employment, the Ministry of Integration and the Ministry of Interior and Health.
- Chapter III deals with the review of the local authority audit reports as performed by the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration as part of their supervision of the reimbursement schemes.
- Chapter IV deals with the local authorities' administration of the employment effort that has been outsourced to external actors.
- Chapter V deals with the financial statements of the regions.

5. The draft report was presented to the Ministry of Social Affairs, the Ministry of Employment, the Ministry of Integration, the Ministry of Interior and Health, the five regions and the six local authorities that Rigsrevisionen visited during its audit and whose comments to the widest possible extent have been incorporated in the report.

## MAIN FINDINGS AND CONCLUSION

**In 2010, the government transferred DKK 334.5 billion, or just under half of the government's total net expenditure, to local and regional authorities.**

**Rigsrevisionen is of the opinion that on the whole, the financial reporting of the ministries relating to government reimbursements and grants is correct, and the procedures and internal controls established by the ministries ensure that transactions are in compliance with appropriations, legislation and other provisions, agreements made and general practice.**

The main conclusion is based on the following findings:

### The financial reporting of the ministries

**Rigsrevisionen is of the opinion that on the whole, the financial reporting of the ministries relating to government reimbursements and grants received in 2010 is correct.**

#### *The financial reporting by the ministries relating to government reimbursements*

- Rigsrevisionen does not find it satisfactory that the Ministry of Social Affairs had no clear overview of possible outstanding accounts with the Ministry of Employment, the Ministry of Integration or the local authorities because an inter-company account for the settlement of government reimbursement had not been reconciled.

### The ministries' supervision of government reimbursements

**The review of the local authority audit reports for the fiscal year 2009 as performed by the Ministry of Social Affairs, the Ministry of Employment and the Ministry of Integration as part of their supervision of the reimbursement schemes, was generally satisfactory.**

**Rigsrevisionen recommends that the ministries in their letters of response should clarify whether the follow-up performed by the local authority councils is considered satisfactory. Also information on pending cases on government reimbursements that the ministries consider closed should be included in the response letters. The supervision performed by the ministries can be further improved if it appears from the audit reports whether errors detected during the audit are expected to affect the reimbursement.**

#### *The ministries' assessment of the audit reports*

- Generally, the ministries' review of the local authority audit reports was satisfactory and contributed to ensuring correct settlement of government reimbursements.
- Reporting on the audit performed varied; for some local authorities, reporting was kept at a general level and certain fields of responsibility under the Ministry of Social Affairs and the Ministry of Employment were therefore reported on collectively. As a result hereof, the two ministries were unable to derive from the reporting, the audit findings made in the specific fields of responsibility.
- The ministries have increased their cross-ministerial collaboration in order to make reporting on audits more uniform. Rigsrevisionen welcomes the ministries' initiative to develop the audit reporting framework.

#### *The ministries' letters of response to local authorities*

- The contents of the ministries' letters of response are generally relevant, but the ministries should take position on the initiatives launched and provide an assessment of whether they consider them adequate. The ministries should also clarify which cases from past years they consider closed.
- The Ministry of Social Affairs is planning to launch a website providing information on the ministry's decisions on issues concerning interpretation of laws to the local authorities and their auditors. Rigsrevisionen welcomes this initiative and has recommended that the Ministry of Employment should consider doing the same.

#### *The ministries' ability to observe the deadline for sending letters of response to the local authorities*

- Close to all letters of response concerning the fiscal year 2009 were sent on time. Rigsrevisionen is very satisfied that the Ministry of Employment observed the response deadline for 2009. In 2008 only 22 per cent of the local authorities received the letter of response within the deadline. The Ministry of Social Affairs is planning to send letters of response to the local authorities before 1 April and Rigsrevisionen recommends that the Ministry of Employment should do the same.

#### **The local authorities' administration of the employment effort that has been outsourced to external actors**

**A considerable part of the expenditure of the local authorities that is reimbursed by the government concerns the employment efforts directed towards unemployed citizens. The local authorities are handling the concrete employment efforts directed towards the unemployed citizens, but agreements based on the standard contract developed by the National Labour Market Authority can be entered with external actors. The local authorities are required to supervise the part of the employment effort that has been outsourced to external actors to ensure that they provide the agreed services to the unemployed citizens and to ensure that the government reimbursement is correctly settled.**

The local authorities' supervision of the activities provided as part of the employment effort by external actors is generally satisfactory; it is based on the guidance on supervision developed by the National Labour Market Authority and documented in inspection reports. However, the supervision could be improved if the effect of the employment services provided by the local authority and the external actor, respectively, could be compared.

Rigsrevisionen is not of the opinion that the local authorities are sufficiently focused on how external actors handle personal data on unemployed citizens. Audit opinions are issued to the local authorities on the external actors' compliance with the Act on Processing of Personal Data, but these audit opinions are not reviewed by the local authorities. Rigsrevisionen recommends that the local authorities, in order to strengthen their supervision, should review also the audit opinions.

In 2009, the responsibility for the overall employment effort was transferred to the local authorities along with the responsibility for establishing an IT system in replacement of the government-based labour market portal that had been used so far to support the administration of the employment effort.

The local authorities have not managed to implement this new IT system and are therefore still using the labour market portal, which has not been further developed since 2009. As a consequence, the local authorities have duplicated work because the employment plans worked out by the external actors are being fully or partly re-entered into the IT system. The National Labour Market Authority has stated that a local authority IT system will replace the labour market portal by the end of 2011. Rigsrevisionen expects this new IT system to provide forward-looking support to the employment effort.

*The contractual basis for entering agreements with external actors concerning the employment effort*

- The template for the data-processing and connection agreement that has been developed by the National Labour Market Authority and is part of the contract entered between the local authority and external actors, was open-ended. This entailed a risk that adjustments of the data-processing and connection agreement would not apply to external actors who already had a data-processing and connection agreement with the local authority.
- At the recommendation of Rigsrevisionen, the National Labour Market Authority has now adjusted the template for the data-processing and connection agreement and ensured that it is linked to one specific framework agreement, and thereby to a limited and defined activity and time period.
- The National Labour Market Authority has in some cases entered framework agreements with consortiums of external actors. These agreements represented a practical challenge for the local authorities, and as a consequence, they did not meet the terms of the contract material.

*The local authorities' supervision of external actors' employment efforts and handling of personal data*

- Generally, the local authorities supervision of external actors' employment efforts was satisfactory; the supervision followed the guidance issued by the National Labour Market Authority and was documented in inspection reports.
- Only one of the six local authorities that Rigsrevisionen visited as part of its examination had registered external actors with the Danish Data Protection Agency. Rigsrevisionen recommends that the National Labour Market Authority should impress on the local authorities their obligation to register external actors with the Danish Data Protection Agency.
- The local authorities' supervision of external actors' handling of personal data on unemployed citizens was inadequate. The local authorities failed to review the audit reports on the external actors' compliance with the Act on Processing of Personal Data and therefore overlooked that many of the audit reports did not meet the requirements of the data-processing and connection agreements.
- The audit reports on external actors' compliance with the Act on Processing of Personal Data were characterized by inconsistency: contents varied, the certainty with which the auditor made his/her statement varied, and which period the audit report covered was not always clearly indicated.
- The National Labour Market Authority was aware of the inconsistent character of the audit reports, but on-going efforts to resolve the issues were put on hold temporarily in 2008 on the grounds that it would pose problems to burden the external actors with extra costs.
- Rigsrevisionen is of the opinion that the local authorities could simplify their supervisory task by using a standard audit report, as that would make it easier for the local authorities to assess whether the external actors are complying with the requirements of the data-processing and connection agreements.

*IT systems supporting the local authorities' use of external actors*

- The local authorities are generally satisfied with the case-handling system "Arbejdsmarkedsportalen" (the web-based labour market portal) and "Jobindsats.dk" (web-based statistics portal) and use both systems for their supervision of the employment efforts that have been outsourced to external actors.
- When the employment effort in 2009 was transferred to the local authorities, it was decided to phase out the labour market portal. The local authorities have not yet implemented an IT solution in replacement of the labour market portal and thereby ensured and expanded the continued IT support of the employment effort.
- External actors have not, as planned, been authorised to access the employment plan section of the labour market portal. This results in duplication of work as the employment plans worked out by the external actors are being fully or partly re-entered into the IT system by the local authorities.
- Jobindsats.dk is not providing the local authorities with the option to compare the effect of the employment services provided by the job centres and external actors, respectively.

### Review of the regional financial statements

**The regional financial statements for 2009 were subjected to satisfactory audit, and focus on performance audit had been increased. One region had not completed its follow-up on all the auditor's comments on the financial statement for 2008, and the comments were therefore transferred to the 2009 audit report.**

#### *Audit of regional financial statements for 2009*

- The auditors issued unqualified audit opinions with no emphasis of matter paragraphs on three of the five regional financial statements, which is an improvement over 2008. Rigsrevisionen welcomes this development.
- All the auditors have conducted on-going performance audit in selected areas and expanded performance audit upon request by the regional councils. The auditors concluded that due financial considerations had been taken into account. Rigsrevisionen is of the opinion that the regional councils and the auditors have increased their focus on performance audit in 2009 compared to previous years. Rigsrevisionen welcomes this development.